

Helping Alabamians
and our neighbors
in a time of crisis

ALABAMA INSURANCE REPORT

2005

About this report

The Alabama Insurance Report serves as the annual report of the Alabama Department of Insurance.

Additional information regarding companies, as well as the activities of the Alabama State Fire Marshals Office, is available online at the department's web site, www.aldoi.gov.

The primary editor of this report is Assistant Commissioner Ragan Ingram. Sean Duke, an examiner with the department, prepared the statistical data at the end of the report.

Within the body of this report is the final product of the Hurricane Insurance Issues Task Force, which was convened in the aftermath of Hurricane Ivan.

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Commissioner Walter Bell

Having spent his youth and a great deal of his adult life in Mobile, Walter Bell walked into the job as Alabama Insurance Commissioner with the understanding of the destructive force of hurricanes.

That experience has been a help to him, the Alabama Department of Insurance and the people of Alabama as two hurricanes have pelted the state in the past year and others have cast a threat.

Also helpful has been his long-time background with community service.

"Our first priority will always be looking after the citizens of Alabama," Bell says.

Toward that end, he decided to reorganize the Department this past year — creating a



new consumer services division to assist Alabamians with insurance questions and complaints.

Commissioner Bell's experience in the private sector has made him a natural choice for important assignments with the National Association of Insurance Commissioners.

He is currently chairman of the NAIC Speed to Market Task Force, which is addressing issues in red tape reduction for both consumer and industry.

(Continued on Page 7)



The Honorable Bob Riley

Governor, State of Alabama

Governor Bob Riley was sworn into office as Alabama's 52nd chief executive on Jan. 20, 2003, after representing the state for six years in the United States Congress.

Governor Riley comes into office during troubling financial times within the state's education, correction, and transportation systems, along with several other agencies. He has instituted a host of reforms to reshape Alabama's government into a model of efficiency and competency.

"Alabama's government was established to serve the citizens, not the system," Gov. Riley says. "I believe that as a nation's first responsibility is to defend its people, a state's first responsibility is to educate its young."

Governor Riley has appointed successful and proven leaders to head the various state agencies needing urgent attention, and has recruited a world-class staff to help implement his many proposals for change.

Governor Riley was born and raised in the small Clay County town of Ashland, where his family has lived on ranches and farms for six generations.

After graduating from the University of Alabama at age 20 with a degree in business administration, he returned to his hometown, married his high school sweetheart and started a small business with his brother selling eggs door-to-door. That small, family-owned venture grew to become one of the largest integrated poultry operations in the Southeast.

For 32 years, Governor Riley ran a number of successful businesses including a trucking company, an automobile dealership, a real estate company, a grocery store, and a small pharmacy. He's also been a cattleman for the last 25 years, having more than 400 head of cattle on his Ashland ranch.

In 1996, when Alabama needed leaders to fundamentally change the course of government in Washington, Bob

Riley, answered the call. Governor Riley ran a successful congressional campaign in his first run for state or national office, keeping his pledge to serve only three terms.

Governor Riley has been very active in serving his community as both a Shriner and a Mason. He and his family are members of the First Baptist Church of Ashland, where he taught the men's Sunday school class for a number of years and also served as Chairman of the church's Board of Trustees.

Governor Riley is married to the former Patsy Adams, also from Clay County. The Rileys were blessed with four children – Rob, Jenice, Minda and Krisalyn. Jenice, the Rileys' oldest daughter and the campaign's fund-raiser, passed away in August 2001 after inspiring scores of people through her courageous fight against cancer. The Rileys are also the proud grandparents of five grandchildren.



BOB RILEY
GOVERNOR

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LICENSING MANAGER
JIMMY W. GUNN

September 30, 2005

The Honorable Bob Riley
Governor
Alabama State Capitol
Montgomery, Alabama 36101

Re: 2005 Annual Report

Dear Governor Riley:

In compliance with Section 27-2-9, Code of Alabama 1975, I have the duty and the honor to transmit herewith the annual report of the Alabama Department of Insurance covering the period of October 1, 2004 through September 30, 2005. The statistical data used in this report comes directly from the annual statements filed by the various insurance companies, without audit or verification.

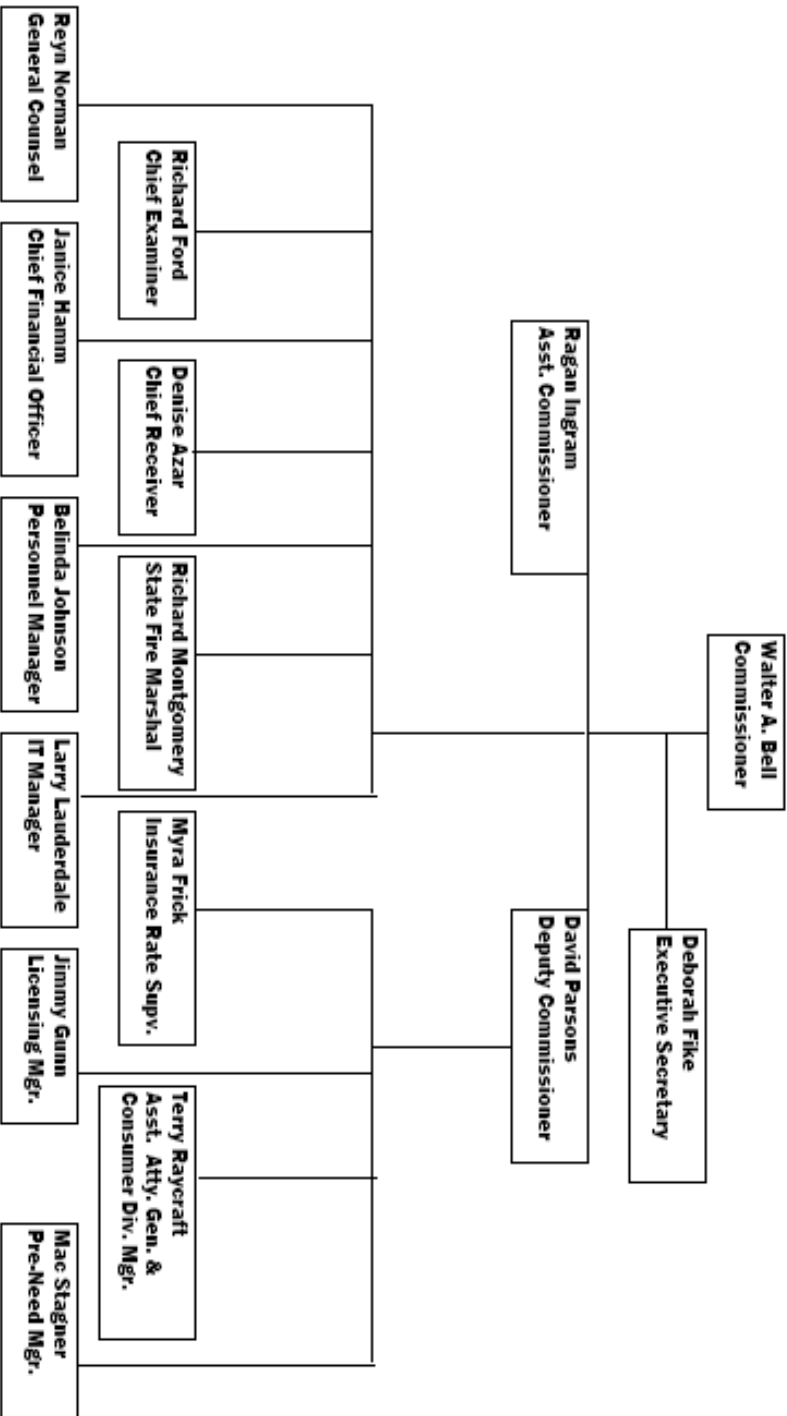
Respectfully submitted,

A handwritten signature in black ink, appearing to read "WAB", followed by a horizontal line.

Walter A. Bell
Commissioner

WAB:gri:df

ALABAMA DEPARTMENT OF INSURANCE ORGANIZATIONAL CHART





ALDOI reorganizes to increase service

Just because you do something well doesn't mean you can't do it better.

That's what Insurance Commissioner Walter A. Bell had in mind when he reorganized the Alabama Department of Insurance in July 2005.

"We've always worked hard to help Alabama citizens and those in need," he said. "Our staff has done a good job in this area, but it seemed to me that we could pool our

talents and focus our energies even more to the benefit of Alabama consumers."

In July, the Department changed its operations, taking parts of two former divisions -- Life & Health and Property & Casualty -- and moving their consumer specialists into the Consumer Services Division.

"With cross-training, we will be able to have any of our specialists able to handle just

about any insurance inquiry or complaint," Commissioner Bell said. "It will balance our workload and make us more efficient."

The Department is looking to boost its anti-fraud efforts as well. Toward that end, Assistant Attorney General Terry Raycraft, who has been the lead anti-fraud attorney, is the new division manager for the Consumer Services Division.

The staff members

left in the former divisions have unified in the new Rates and Forms Division, which is lead by Insurance Rate Supervisor Myra Frick. Supervising the two new divisions, the Pre-Need Division and Producing Licensing is Deputy Commissioner David Parsons.

"David is our most experienced regulator at the Department," said Commissioner Bell said.

(Continued on Page 7)

ALDOI reorganizes staff

(Continued from Page 6)

"In a way, the reorganization began after Ivan because we had so many people plugged into helping hurricane victims. This seemed an obvious next step for us."

The reorganization also allows the Pre-Need Division to stand on its own.

"Pre-Need has taken a lot of our resources," Commissioner Bell said. "We are working on

education programs for the providers to make sure they following the provisions of the law."

Mac Stagner is heading up the Pre-Need Division. Jimmy Gunn continues to supervise the Producer Licensing Division.

Another step was taken earlier in the year when the personnel component was moved into a standalone division upon the arrival of Personnel Manager Belinda Johnson.

"We will be focused more on training — for the short term and the long term," Commissioner Bell said. "We must be prepared when the current managers decide to retire or move on. We must train up a new generation of regulators to look after the interests of Alabama consumers."

"That's our challenge in the coming year and beyond. I like where we are heading. I believe it will be beneficial for the department and for the people."

Commissioner Walter A. Bell

(Continued from Page 2)

Walter A. Bell was named Alabama's 36th Insurance Commissioner on Jan. 23, 2003. By law, he is the state's chief insurance regulator and the administrative head of the Alabama Department of Insurance.

After working for community service organizations in the first part of his career, he entered the financial services world in 1979. He started as a branch manager for First National Bank in Mobile, which is now Am-South Bank.

After four years as a banker, Commissioner Bell became a financial professional with The MONY Group, advising clients on issues of insurance and financial planning.

Over the next 14 years, he developed a successful business and earned recognition nationally for his achievements.

In 1996, The MONY Group named him its National Director for Emerging Markets.

He continued his work in Mobile as a financial planner in conjunction with the new duties.

In 1999, The MONY Group named Bell its Vice President for Diversity Marketing thereby expanding his role at the company as a force for marketplace and workforce development.

Community service remains important to Commissioner Bell. A 1983 graduate of Spring Hill College in Mobile, he is a long-time trustee of the college.

He also serves on the volunteer boards of the Mobile Arts and Sports Association and the Boys and Girls Clubs of America.

His past presidencies include the board of directors for United Way of Southwest Alabama, Mobile United, the Industrial Development Board of Mobile and the Alabama School for Math and Science.

He currently serves on the boards of directors for Energy-South, Inc., and Gulf Federal Bank. He is also a limited partner in the Mobile BayBears, the city's Southern League Baseball team.

Commissioner Bell is married to the former Loresa Carlton. They have two grown children. The Bells are members of Big Zion AME Church in Mobile.

ALDOI aims for successful legislative session

Logjams in the 2005 regular session of the Alabama Legislature created the need for a special session to pass the Education and General Fund budgets.

The stalemate prevented many organizations, including the Alabama Department of Insurance, from passing any bills on its legislative agenda.

The following new laws or amendments to existing laws are strongly recommended for future legislative action:

- An act amending insurance producer licensing laws to provide for their biennial renewal and changing continuing education requirements to 24 hours every two years, to include a least three hours on insurance producer ethics or business practices.

- An act adopting the model legislation developed by the National Association of Insurance Commissioners to



create an interstate compact for the purpose of approval of life insurance rates and forms. This model is a part of the states' efforts to keep the federal government from assuming regulation of the insurance industry.

- An act adopting revisions to the Alabama Preneed Funeral and Cemetery Act so as to better enable the regulation of this industry.

- An act providing for the crime of insurance fraud and specifically authorizing the Department to investigate suspected fraud and

providing civil and criminal penalties for violations.

- An act making it clear the Insurance Commissioner has the authority to disapprove the use of insurance policies in this state that fail to meet applicable federal requirements, and to also clarify that Health Care Service Plans and Health Maintenance Organizations are subject to the provisions of Chapter 52 of the Alabama Insurance Code, as is required by federal law.

- An act adopting the

Alabama Captive Insurance Company Act providing for the creation and regulation of a special type insurance company which primarily insures the risks of the company's owner or owners, thus providing another alternative to "self-insurance." Adoption of this act was also recommended by the Hurricane Insurance Issues Task Force this summer.

- An act requiring a "free look" period on all life insurance policies and annuity contracts,

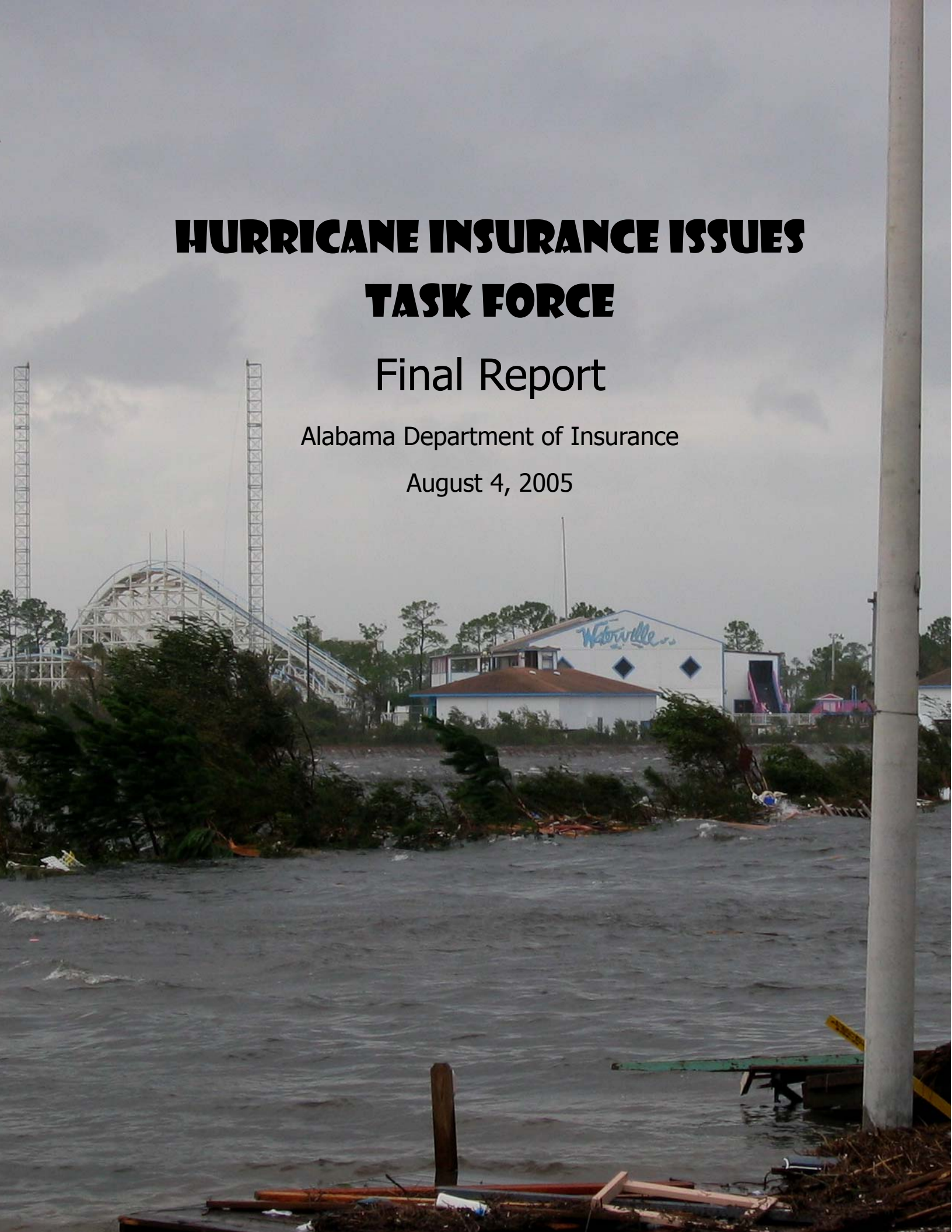
(Continued on Page 20)

HURRICANE INSURANCE ISSUES TASK FORCE

Final Report

Alabama Department of Insurance

August 4, 2005





The Final Report of the Hurricane Insurance Issues Task Force is a compilation of the activities and represents the recommendations adopted by the Task Force at its June 28 meeting at Robertsedale, Alabama.

The photographs in the report were taken by Assistant State Fire Marshal Jeff Thompson, who was stationed in Baldwin County in the days leading up to and after the landfall of Hurricane Ivan.

The staff of the Alabama Department of Insurance provide assistance to each of the committees:

- Former Deputy Commissioner Johnny Johnson was the staff liaison to the Claims Coordination Committee.

- Deputy Commissioner David Parsons was the staff liaison to the Alternative Markets Committee.

- General Counsel Reyn Norman was the staff liaison to the Coverage Restrictions and Exclusions Committee.

- Assistant Commissioner Ragan Ingram was the staff liaison to the organizations that created the Market Referral List. He also edited this report.



Dear Governor Riley,

I am pleased to present to you the Final Report of the Hurricane Insurance Issues Task Force. I am deeply indebted to the members of the Task Force, all of whom volunteered their time, for their effort on this important work. I also want to thank you for your help in assembling this Task Force.

It is my belief that work of the Task Force has been beneficial for the parties involved, and will ultimately benefit the people of Baldwin and Mobile counties and the State of Alabama.

The Alabama Department of Insurance will be better prepared for future hurricanes because of our experience with Ivan and with the lessons learned through the Task Force's work.

Yours for Alabama,

Walter A. Bell

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Ivan: A look back

In the early morning hours of September 16, 2004, Hurricane Ivan made landfall as a Category 3 storm on the Alabama Gulf Coast, punishing the resort areas of Gulf Shores and Orange Beach and other communities in the vicinity.

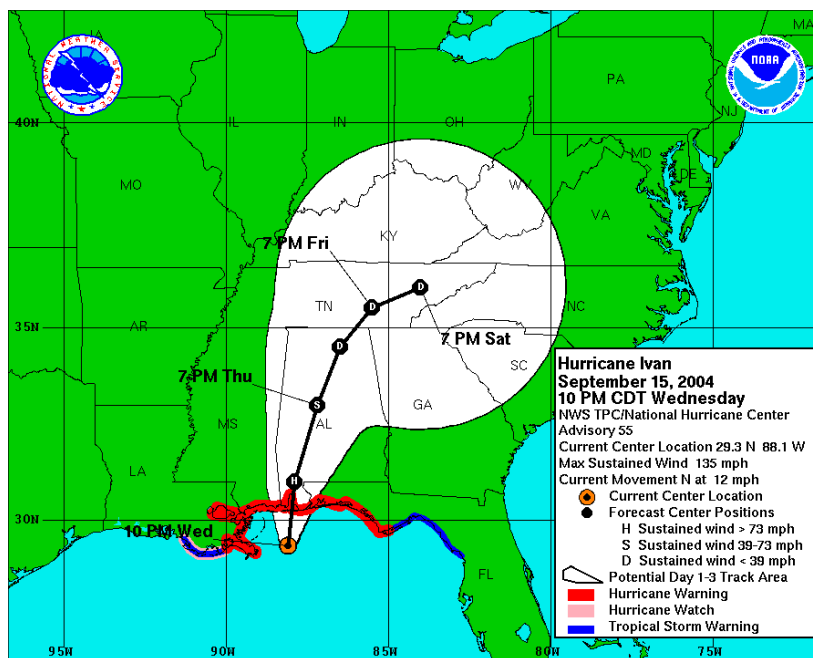
But Ivan did not stop there, pushing through Baldwin County and causing damage throughout southern and southwest Alabama.

In fact, the damage caused by Ivan would result in 65 of Alabama's 67 counties being declared federal disaster areas.

Ivan saw its beginnings as Tropical Depression Nine off the Cape Verde Islands. The next day, Ivan was given his name. On September 7, Ivan battered St. Vincent, Grenada and Barbados on its trek toward the Gulf of Mexico.

As it neared the Gulf, it hit Jamaica with a glancing blow and did serious damage to Grand Cayman.

After its landfall near Gulf Shores and its trek through Alabama, Ivan marched up the East Coast of the United States. Ivan caused storms to reach as far north as Nova Scotia, but



the main part of the storm exited the mainland off the coast of New Jersey.

At that point, Ivan did a "U-turn" tracking southward off the U.S. East Coast and re-entered the mainland in Central Florida and crossed into the Gulf of Mexico for a second time. It made landfall for the third time in western Louisiana.

Ivan was a \$15 billion storm — one of the worst in the nation's history. It is estimated that half of this was insurable losses.

While Alabama was the first recipient of Ivan's invasion of the U.S., it was hardly alone in receiving damage. The Florida

panhandle, which was located to the east of the eye wall, was also in the line of fire.

The Escambia Bay bridge on Interstate 10 near Pensacola was damaged severely, serving as a testament to Ivan's wrath.

In Alabama, more than 200,000 insurance claims were filed due to Ivan. The best estimate says Alabama eclipsed the \$1 billion mark in insurable losses due to Hurricane Ivan.

That estimate clearly outpaces the damage done by Hurricane Frederic, which devastated the Gulf Coast 25 years before, and Opal some nine years prior.

Panel of local leaders, industry goes to work to craft solutions

In the months following Hurricane Ivan, it was determined that several issues related to hurricanes and insurance needed to be addressed.

Accordingly, Gov. Bob Riley and Insurance Commissioner Walter A. Bell appointed the Hurricane Insurance Issues Task Force.

A panel representing civic groups and legislators from Baldwin and Mobile counties was grouped with industry representatives to form the Hurricane Insurance Issues Task Force.

“The purpose of the Task Force was to study issues related to affordability and availability of insurance in coastal areas,” Commissioner Bell said, “and to figure out ways to make sure when a hurricane hits that claims are paid in a timely fashion. We were working off the basic premise that the more information people have at their disposal, the better off they will be in a hurricane situation.”

The Task Force divided its work into three committees:

► **Alternative Markets** — This committee studied forms that insurance may take in the future, and ways to make it more available.

This committee was chaired by Randy Delchamps, president of the Mobile Area Association of Realtors.

► **Coverage Restrictions and Exclusions** — This committee studied the market of insurance and what role, if any, deductibles and exclusions should play. Beverly Faulkner, president of the Baldwin County Home Builders Association, chaired the committee.

► **Claims Coordination** — This committee studied the process of how claims are adjusted and paid in order to streamline the process to benefit Alabama consumers. Mark Berson, president of the Alabama Gulf Coast Chamber of Commerce, chaired this committee.

Another work of the Task Force was the Market Referral List, a tool for consumers to use to find new insurance markets.

TASK FORCE MEMBERS

Commissioner Walter A. Bell

Alabama Department of Insurance

Mark Berson

Alabama Gulf Coast Chamber of Commerce

Eric Brewer

Home Builders Association of Metro Mobile

Jack Brunson

National Security Insurance Group

Dr. Louis Buckalew

South Mobile County Chambers of Commerce

The Honorable Bradley Byrne

Alabama State Senate

The Honorable Spencer Collier

Alabama House of Representatives

Tom Curtin

Cooney, Rikard & Curtin, Inc.

Randy Delchamps

Mobile Area Association of Realtors

Beverly Faulkner

Baldwin County Home Builders Association

Rich Golick

Allstate Insurance

Jay Ison

Thames, Batre', Mattei, Beville and Ison

Brad Kading

Reinsurance Association of America

Drew Klasing

Auto Owners Insurance

The Honorable Steve McMillan

Alabama House of Representatives

Al Scott

Alfa Insurance

Jim Sikora

State Farm Insurance

Sylvia Stewart

Baldwin County Association of Realtors

The Honorable Gary Tanner

Alabama State Senate

Richard Thomas

Nationwide Insurance

Alternative Markets group looks at captives law

The Alternative Markets Committee looked at four issues in its work before making a formal recommendation to the full Hurricane Insurance Issues Task Force.

► **Captive Insurance law.** Currently, the state of Alabama does not have a captive insurance law, which is a mechanism for similar entities to form their own insurance company to insure their risks.

If enacted in Alabama, condominium associations, restaurants and other like industries could pool their resources together. Benefits from such a law could be gleaned beyond the coastal area as well as this would apply to the entire state.

The Hurricane Insurance Issues Task Force adopted the Committee's recommendation

ALTERNATIVE MARKETS COMMITTEE

regarding support for such legislation in the 2006 regular session.

► **Disaster Fund.** The committee recommended further study of a disaster fund in Alabama, believing that it was too soon to make a recommendation of the creation of such a fund. Only two states have such a hurricane fund currently -- Florida and Hawaii.

Though the subcommittee acknowledged the advantages of a fund.

► **Modify/Restructure "Beach Pool."** The Alabama Insurance Underwriting Association is the entity known as the "Beach Pool." Several discussion points in a restructuring were brought out, and because of the extent of some of the changes, the committee asked for additional study.



Some of those issues were: expansion or restriction of coverage, change in the make up of board of directors to include non-industry representation, rate review by Alabama Department of Insurance, implement credits for wind mitigation features on homes, required credits for construction under strictest codes, redefining territories of eligibility, and ending of the return of annual surpluses to the participating companies.

The Task Force agreed that these issues merited further discussion before making recommendations to the Legislature or to the Department.

► **Wrap-Around Policies.** The committee, after extended consideration, declined to adopt a recommendation to encourage insurers to offer policies that excluded wind policy to be placed in tandem with a Beach Pool-type wind-only policy. The full Task Force agreed.



Committee recommends new regulation

In the aftermath of Hurricane Ivan, one of the state's largest insurers announced its decision to non-renew 2,300 policies in Mobile and Baldwin counties over the course of a year's time. The insurer offered a substitute policy with a wind exclusion as a replacement.

The result for policyholders was to purchase the new policy and find wind coverage elsewhere, or to find complete coverage elsewhere.

The insurer in question informed the Alabama Department of Insurance regarding its decision several months in advance.

Through discussions with the company, the Alabama Department of Insurance advocated for consumers through negotiating a stricter notice of policy change than currently required in the consumers' policies.

The foundation of that process led the Coverage Restrictions and Exclusions Committee to recommend that Alabama make a formal law or regulation to ensure Alabama citizens receive sufficient notice of such changes in the future.

COVERAGES RESTRICTIONS AND EXCLUSIONS COMMITTEE

Accordingly, the Department researched laws and regulations of other states to determine what is on the books. The committee recommended that the Department adopt a regulation along the lines of a Mississippi law.

The proposed regulation requires insurers to provide notification of a proposed coverage restriction to be imposed at renewal so that policyholders have adequate time to shop for alternate coverage if so desired. The regulation would require insurers to inform the Commissioner 90 days in advance of the proposed change, which for the purposes of the regulation would be the imposition of a wind exclusion, the imposition of a hurricane deductible or the increase of a current hurricane deductible.

While this could be introduced into law, the timeframe for adoption is much quicker through regulation, which the Department is allowed to adopt under its legislative authority.

Education, mediation could aid claims process

One of the largest complications following Hurricane Ivan was the glut of 200,000-plus claims filed as a result of the storm.

While it was a difficult period for consumer and industry alike, it provided an opportunity all involved to learn from the experience.

The Claims Coordination Committee met to propose strategies to streamline the process for the benefit of Alabama citizens.

The committee made four recommendations that were adopted by the full Task Force:

► Consumer education initiative.

The committee recommended that the

CLAIMS COORDINATION COMMITTEE

Alabama Department of Insurance hold “town hall” meetings out of hurricane season and post-events to educate citizens regarding insurance issues. The committee also recommended that public service announcements be created to advertise the Department’s services.

► **After-storm reports.** The committee recommended that companies expand on the reports on claims that they filed post-Ivan to include such information as lessons learned, what worked



for the company in its responsibility to its consumers, and what didn’t work. After Ivan, the companies filed reports regarding claims — total number and those still unpaid.

► **Mediation to settle claims.** In order to prevent litigation, the committee recommended the

creation of a mediation program to help settle claims unpaid within 90 days of filing.

Under the program, mediation would be for first-party claims only, for disputes more than \$500, applicable to catastrophic losses only and other limitations.

► **Coordination of flood and wind claims by single adjuster.** The committee strongly recommended a complete overhaul of the “single adjuster program” — one adjuster for wind and flood claims — that failed after Ivan.



Market assistance plan gives citizens tool to help find insurance options

During the course of the work of the Hurricane Insurance Issues Task Force, a recurring theme emerged from the representatives from Baldwin and Mobile counties.

The citizen representatives on the panel wanted a strategy to advise their neighbors in the two counties of where to turn for property insurance if their current carrier was no longer interested or sufficient to meet their insurance needs.

Thus, the Market Assistance Plan was born. A project of the Baldwin County Home Builders Association, the Baldwin County Association of Realtors, the Home Builders Association of Metro Mobile, the Mobile Area Association of Realtors and the Alabama Independent Insurance Agents.

The Alabama Department of Insurance collected names of companies and agents willing to write property insurance in the two counties. The list is strictly voluntary and can be obtained through the member organizations that originated the plan.

The plan will be updated monthly as necessary



and is available to any Alabama citizen requesting a copy.

The member organizations, nor the Alabama Department of Insurance endorse any of the companies, agencies or agents listed in the plan., but rather offer the list as a resource to Alabama citizens looking for property insurance options.



ALABAMA DEPARTMENT OF INSURANCE
INSURANCE REGULATION

CHAPTER 482-1-XXX

NOTICE REQUIREMENTS FOR COVERAGE RESTRICTIONS
OF EXISTING POLICIES AT RENEWAL

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482-1-XXX-.01 Authority. This chapter is adopted pursuant to Section 27-2-17, Code of Alabama 1975.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

History: New _____, 2005, Effective _____, 2005

482-1-XXX-.02 Purpose. The purpose of this chapter is to require insurers, under certain circumstances, to provide notice of a proposed coverage restriction to be imposed at renewal so that policyholders have time to shop for alternative coverage if so desired.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

History: New _____, 2005, Effective _____, 2005

482-1-XXX.03 Applicability and Scope. This chapter applies to all insurers providing property insurance in the state of Alabama.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

History: New _____, 2005, Effective _____, 2005

482-1-XXX-.04 Definitions. The following definitions shall also apply in this chapter:

(a) COMMISSIONER. The Alabama Commissioner of Insurance.

(b) COVERAGE RESTRICTION. Any imposition of a wind exclusion or hurricane deductible, or increasing an existing hurricane deductible, where the restriction applies to a category or group of existing insureds at renewal and is not a result of prior claims history.

(c) INSURER. An insurer, as defined in Section 27-1-2, authorized to provide property insurance on risks located in the state of Alabama.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

History: New _____, 2005, Effective _____, 2005

482-1-XXX-.05 Notice Requirements.

(1) Every insurer shall provide written notice of a coverage restriction, as defined herein, to the Commissioner no less than ninety (90) days prior to the effective date of any proposed coverage restriction. The notice shall include the type of policies, the type of restriction or restrictions, and the category of consumers to be impacted.

(2) Every insurer shall provide written notice of a coverage restriction, as defined herein, to the named insured on a policy receiving a coverage restriction no less than sixty (60) days prior to the date of renewal.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

History: New _____, 2005, Effective _____, 2005

482-1-XXX-.06 Severability. If any portion of this chapter or its applicability to any person or circumstance is held invalid by a court, the remainder of the chapter or the applicability of the provision to other persons or circumstances shall not be affected.

482-1-XXX-.07 **Effective date.** This chapter shall be effective upon its approval by the Commissioner of Insurance and upon its having been on file as a public document in the office of the Secretary of State for ten days.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

History: New _____, 2005, Effective _____, 2005

Legislative report (Continued from Page 8)

thus permitting the person to whom the policy or contract is issued the right to cancel the policy or contract within thirty days and receive a full refund of all premiums paid.

► An act adopting revisions to the Alabama Insurance Guaranty Association act so as to combine the workers' compensation fund with the "all other forms of insurance" fund in the Alabama Insurance Guaranty Association in order to meet the current demands on the workers' compensation fund.

► An act adopting revisions to the service contract laws so as to better enable the regulation

of this industry.

► An act adopting the risk-based capital requirement for health organizations model act so as to provide minimum capital requirements for health maintenance organizations and health care service plans to realistically provide a cushion related to the risks which the organizations and plans may be subject, based upon such factors as the asset risk, underwriting risk, credit risk and other business risks.

► An act adopting significant revision of all laws relating to the regulation of health maintenance organizations, providing the increased capital and solvency requirements from the current model act.

► An act adopting revision of the minimum capital and surplus requirements for most types of insurers.

► An act adopting significant revision of all laws relating to the rehabilitation and liquidation of insolvent insurers, to include all necessary amendments to Chapters 32, 42 and 44 of the Alabama Insurance Code.

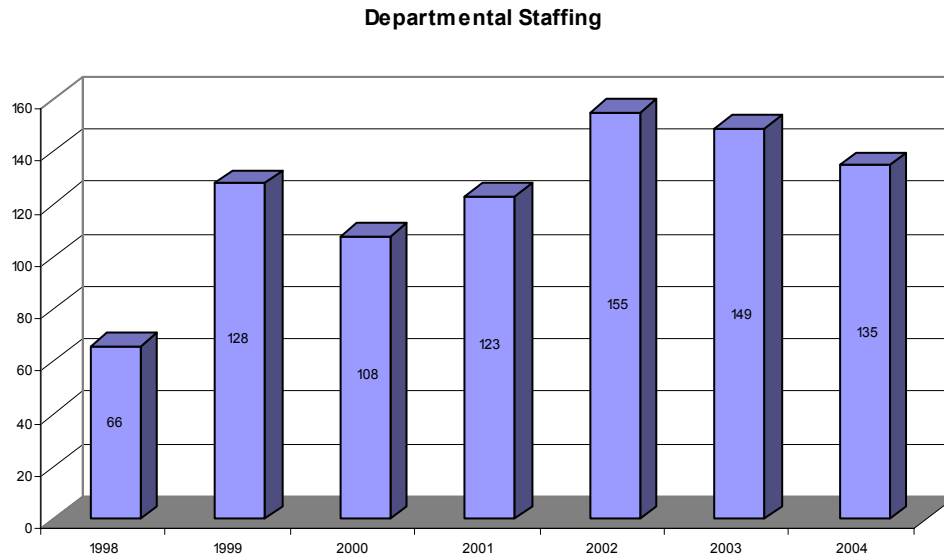
► An act adopting the Viatical Settlements Act to regulate persons engaged in the business of entering into life settlement agreements which provide cash to a person holding a life insurance policy.

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Financial & Statistical Information

Departmental Staffing

During 2004 the Alabama Department of Insurance experienced a 9% reduction in staffing which resulted in a full-time equivalent staffing level of 135. Prior to 2003 staffing had been trending upward in conjunction with efforts to implement recommendations of the Examiners of Public Accounts. Currently, the Department's staffing level is the 4th lowest in the National Association of Insurance Commissioner's Southeastern Zone and is 41% below the Zone average of 190. The reduction experienced in 2004 stemmed from voluntary separations such as retirements, resignations and transfers to other state agencies. Due to budgetary reasons, some of these employees were not immediately replaced.

Separations

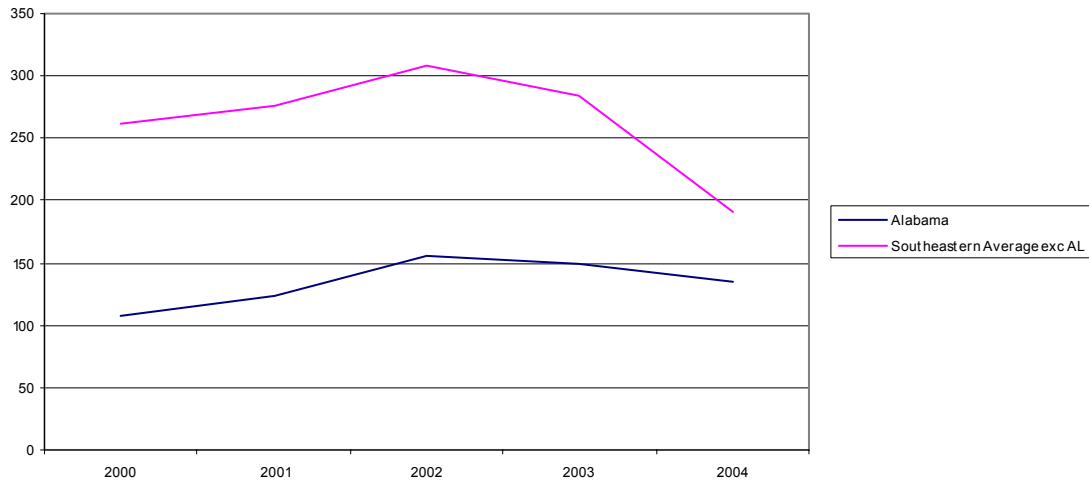
Retirements	5
Resignations	12
Transfers	<u>10</u>
Total	27

Appointments

New Employees	4
Transfers to Agency	4
Lateral Transfers	<u>5</u>
Total	13

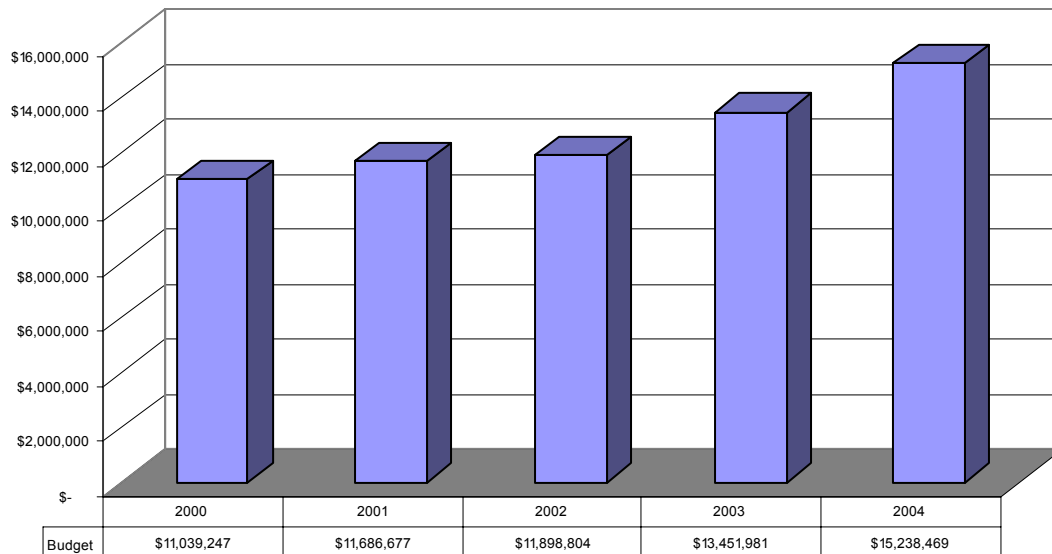
Staffing is a recurring issue that has been discussed in the Sunset Reviews conducted by the Examiners of Public Accounts.

Staffing Comparison (Southeastern Zone Only)



Departmental Budget

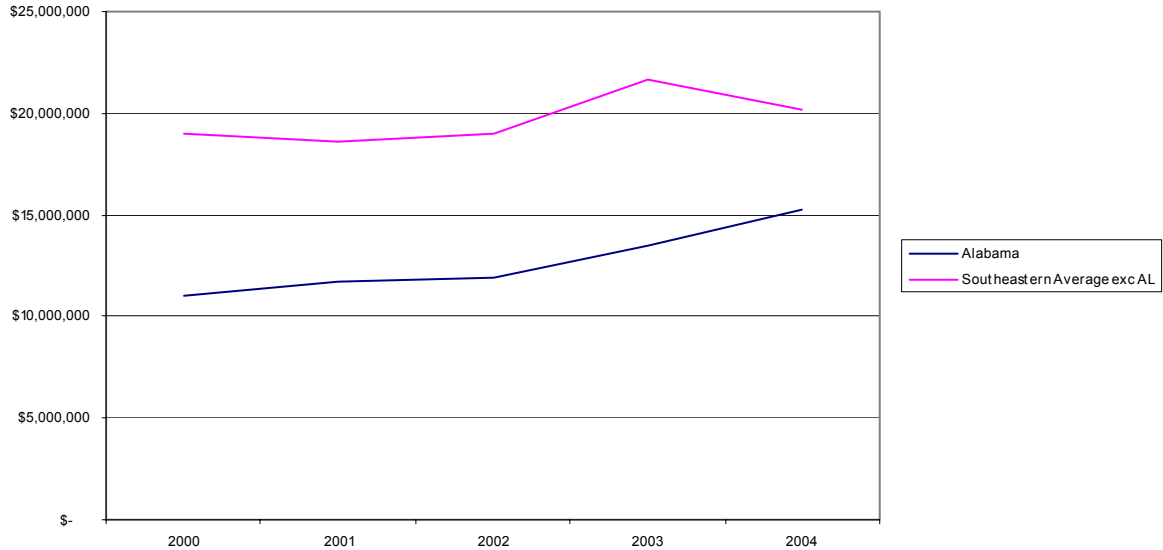
Departmental Budget



The Department's 2004 budget of \$15,238,469 marked a \$1,786,488 or 13% increase over the 2003 budget of \$13,451,961. The increase in the budget stemmed from the combined effects of the passage of HB 418 which increased the fees charged by the Alabama State Fire Marshal's Office and other administrative costs relating to the hiring of additional employees, employee promotions, raises, employee benefit increases, equipment replacement and technology updates.

As illustrated below, the Department's 2004 budget remained well below the NAIC Southeastern Zone average of \$20,453,210 despite the increase associated with the changes previously detailed.

Budget Comparison

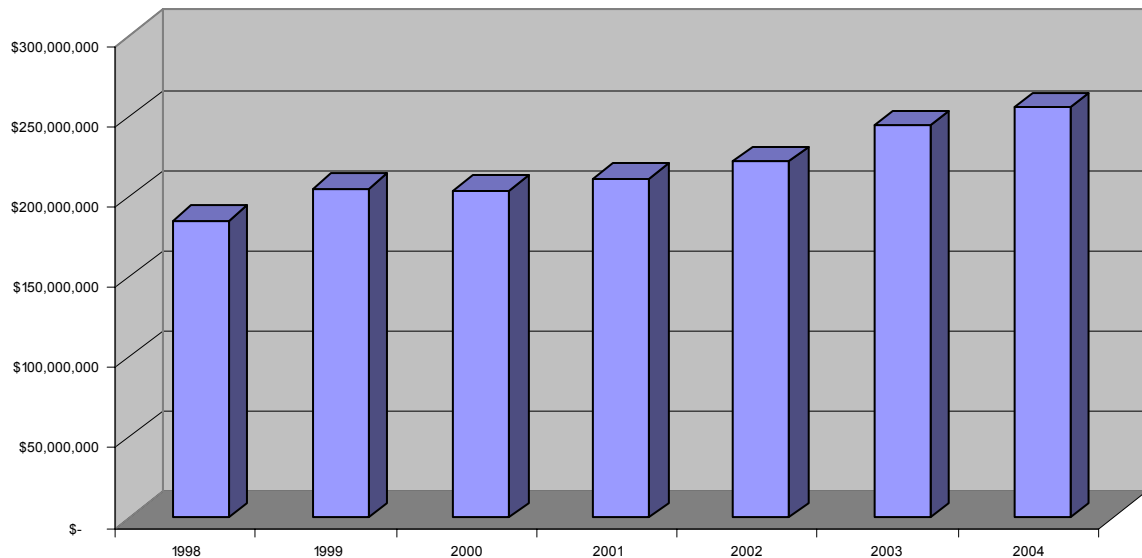


Despite the \$1,786,488 increase in the Department's 2004 budget it still remains \$5,214,741 below the NAIC Southeastern Zone average of \$20,453,910.

Departmental Revenue

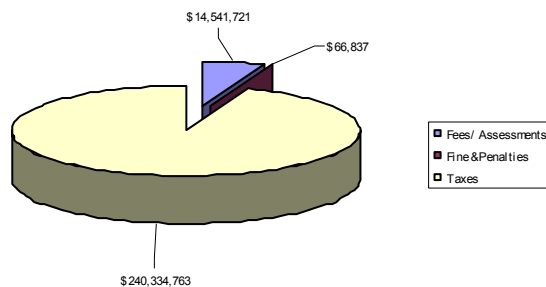
As of December 31, 2004 the Department had collected \$254,943,321 in revenue. The 2004 collections marked the second straight year where Departmental revenue averaged a 6% annual rate of growth.

Departmental Revenue



The Department's primary source of revenue continues to be the insurance premium tax imposed by Title 27, Chapter 4A of the Code of Alabama 1975 which accounted for 94% of the \$254,943,321 in revenue collected. According to the Comprehensive Annual Financial Report (CAFR) published by the Alabama Examiners of Public Accounts the insurance premium tax was the fifth largest source of revenue for the State of Alabama as of the fiscal year ended September 30, 2004.

A comparison of the 2004 premium tax collections with those of 2003 reflected an \$11,773,441 or 5% increase. The 2003/2004 fiscal year collections from premium tax were allocated as follows..

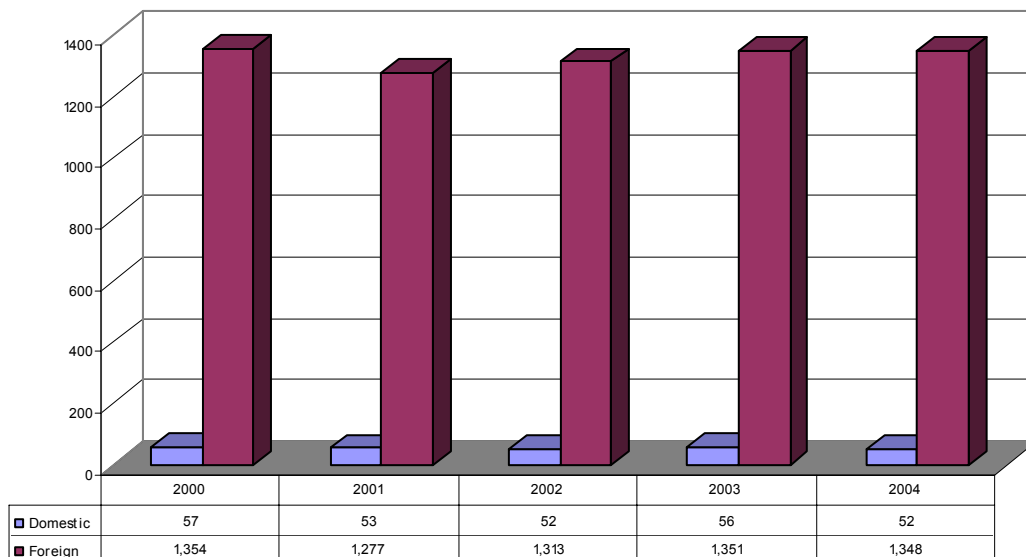


General Fund..... \$204,282,477
 Education Trust
 Fund..... \$30,993,296
 Mental Health
 Fund..... \$4,525,338
 Insurance
 Department
 Fund..... \$1,651,359

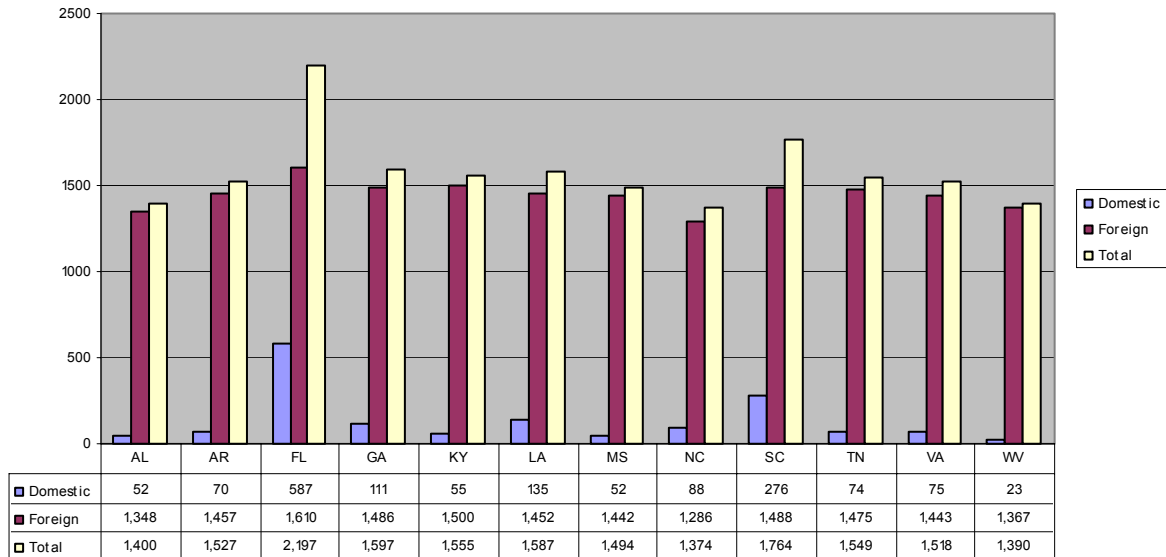
Number of Companies

The number of Alabama domestic insurers declined to 52 and the number of licensed foreign entities dropped to 1,348 in 2004 as a result of: (1) mergers with other companies; (2) redomestications to other states; and (4) receivership proceedings.

Alabama Companies

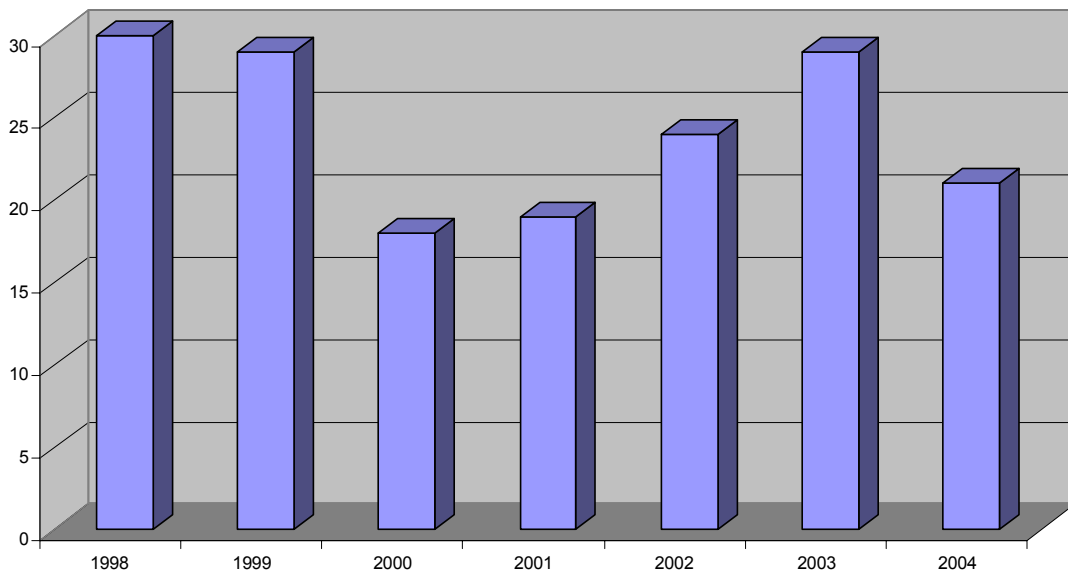


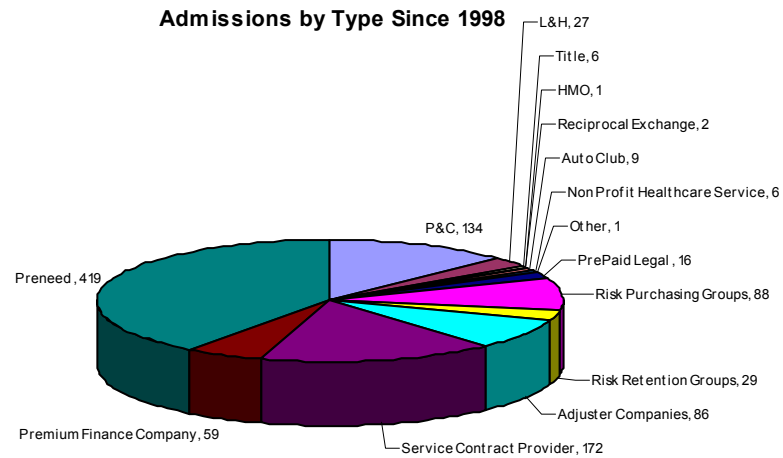
Company Comparison



At year-end 2004 Alabama ranked 10th among the Southeastern Zone states with a total of 1,400 licensed insurance companies. After experiencing a 3% average annual rate of growth from 2001 to 2003 the number of licensed insurers declined .5% in 2004. In 2004 there was also a 28% decline in the number of new companies licensed in the State as the extraordinary growth associated with the passage of Alabama's Mandatory Auto Liability Act began to stabilize.

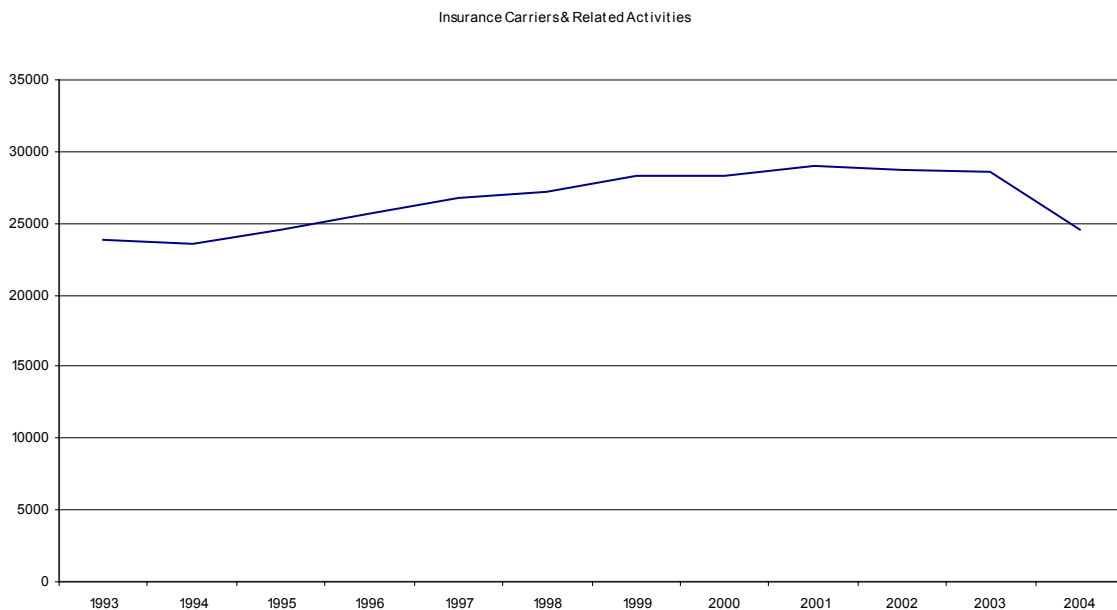
Companies Licensed in 2004





Industry Employment

Alabama, according to the United States Census Bureau, had a population of 4,447,100 as of April 1, 2000. Of that amount, only 1,863,386 individuals were employed. According to the U.S. Bureau of Labor Statistics 28,600 of those Alabamians employed at the time of the census were employed by the insurance industry. After peaking in 2001, employment by the insurance industry in the State has been declining. In 2004 industry employment had declined 14% from the 2000 level to approximately 24,500.



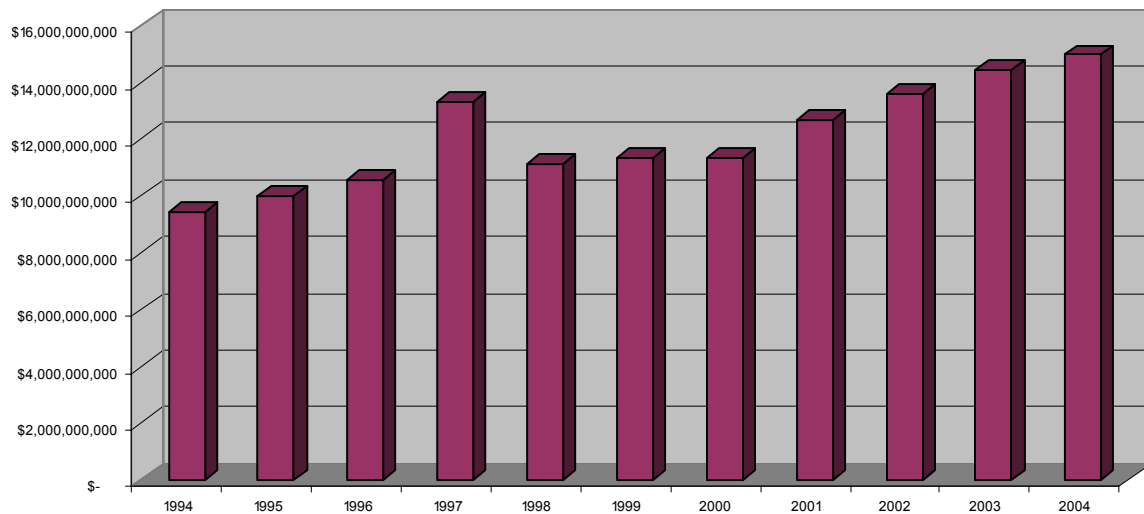
The Department licenses a variety of insurance production and servicing individuals and entities that are not actual underwriting insurance companies. Departmental data reflected the following levels of new license issuance and existing license renewal during 2004 for these individuals and entities.

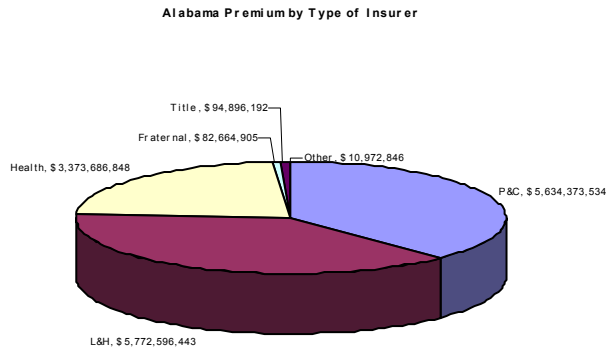
License Type	Number Issued 01/01/2004 - 12/31/2004	Number Renewed in 2004
Producer	14,146	48,673
Managing General Agent	2	8
Service Representative	57	670
Surplus Line Broker	169	339
Surplus Line Broker Business Entity	17	0
Adjuster	807	1,633
Business Entity	808	3,032
Reinsurance Intermediary	4	2
Preneed Sales Agent	194	697
Title Agent	123	783

Premium Volume

Premium writings in Alabama from 1994 through 2004 continued to experience a 5% average annual rate of growth. The only departure from this moderate growth rate was a 1997 spike relating to premium volume and rate increases by foreign casualty insurers.

Aggregate Direct Premium Written 2004
(All company types and lines)

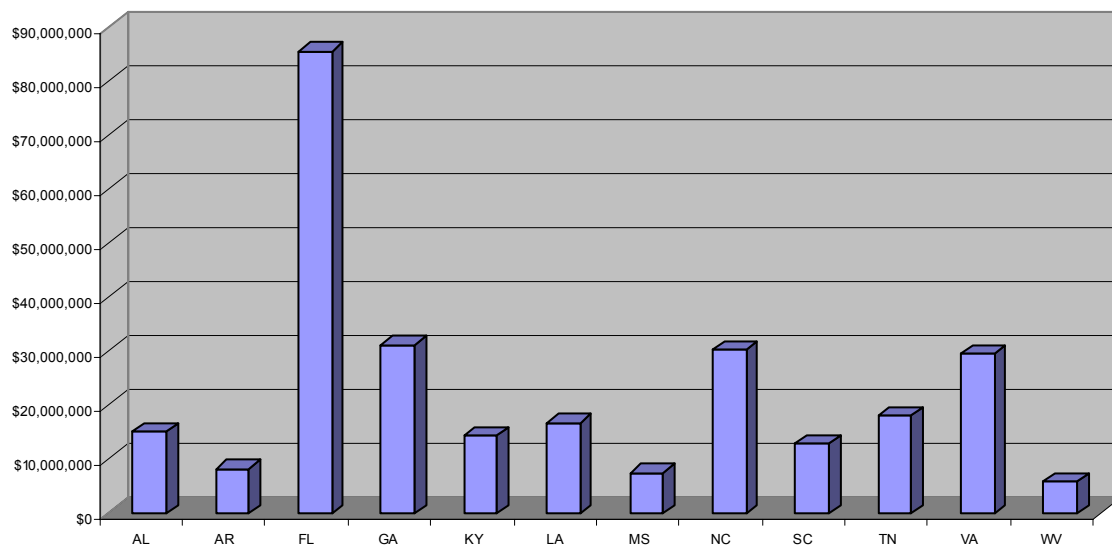




The bulk of the \$14,969,190,768 in premium written in the State of Alabama during 2004, 77%, was written by property and casualty (38% or \$5,634,373,534) and life and health (39% or \$5,772,396,443) insurers. The remaining 23% or \$3,562,220,791 was allocated among health, title, fraternal and other insurers with health comprising the 95% of the remaining total at \$3,373,686,848. A comparison of the 2004 allocation with that of 2003 revealed a slight shift in premium away from the life and health segment of the industry which was accounted for 40% of the 2003 premium writings to property and casualty which accounted for 37% of the 2003 total. Health also reflected a significant increase from 2003's 21% to 2004's 23%.

Despite ranking 10th in the NAIC Southeastern Zone in the number of licensed insurance companies there were a total of \$14,969,190,768 in premium written in the State in 2004 which ranked 7th among the Southeastern Zone.

2004 Premium Volume- 000's Omitted



Alabama's ranking based on premium volume remained below the Southeastern Zone average of \$22,837,737,205 for 2004 despite the 5% average annual growth rate.

2004 Alabama Property Aggregate Exhibit of Premiums And Losses - \$(000)

	DOMESTIC COMPANIES			ALL AUTHORIZED COMPANIES		
	DIRECT PRE- MIUM	DIRECT PREMIUM EARNED	DIRECT LOSSES INCURRED	DIRECT PREMIUM WRITTEN	DIRECT PREMIUM EARNED	DIRECT LOSSES INCURRED
FIRE	30,042	31,113	16,421	75,239	76,360	61,332
ALLIED LINES	11,141	11,619	58,773	62,249	62,395	101,195
MULTIPLE PERIL CROP	0	0	0	34,725	35,364	17,224
FEDERAL FLOOD	0	0	0	15,787	14,899	150,174
FARMOWNERS MULTIPLE PERIL	38,988	37,793	80,553	8,240	7,973	7,922
HOMEOWNERS MULTIPLE PERIL	200,149	188,910	331,152	704,987	666,762	856,834
COMMERCIAL MULTIPLE PERIL	30,095	28,881	55,526	241,817	234,813	283,246
COMMERCIAL MULTIPLE PERIL	32,192	31,599	15,535	139,990	137,125	84,965
MORTGAGE GUARANTY	0	0	0	64,908	65,056	34,338
OCEAN MARINE	1,243	1,293	1,422	25,990	25,374	21,911
INLAND MARINE	6,956	6,792	3,480	152,903	155,574	113,918
FINANCIAL GUARANTY	0	0	0	22,516	12,046	42,314
MEDICAL MALPRACTICE	114,699	112,989	18,123	31,021	24,458	7,795
EARTHQUAKE	2	1	0	5,348	5,189	69
GROUP A&H	0	0	0	27,614	27,786	25,781
CREDIT A&H	0	0	0	5,674	5,687	966
COLLECTIVELY RENEWABLE A&H	0	0	0	2	26	(3)
NON-CANCELABLE A&H	0	0	0	0	0	0
GUARANTEED RENEWABLE A&H	0	0	0	9,051	5,175	6,112
NON-RENEWABLE FOR STATED	0	0	0	2,980	3,007	1,714
OTHER ACCIDENT ONLY	466	462	268	1,272	1,187	3,252
ALL OTHER A&H	0	0	0	2,674	2,924	1,492
FEDERAL EMPLOYEES HEALTH	0	0	0	0	0	0
WORKERS' COMPENSATION	8,548	8,022	3,913	311,735	323,733	235,168
OTHER LIABILITY	16,885	16,673	7,255	374,163	383,810	249,549
PRODUCTS LIABILITY	421	227	232	34,691	31,805	30,565
PRIVATE PASSENGER AUTO NO-	1,567	1,693	1,337	0	0	719
OTHER PRIVATE PASSENGER AUTO	239,245	239,374	148,206	914,843	904,999	542,348
COMMERCIAL AUTO NO-FAULT	0	0	0	(23)	(22)	(2)
OTHER COMMERCIAL AUTO LIABIL-	3,732	3,758	4,188	312,076	305,914	196,722
PRIVATE PASSENGER AUTO PHYSI-	217,944	217,354	133,641	785,928	777,612	466,874
COMMERCIAL AUTO PHYSICAL	1,243	1,239	541	112,576	112,374	59,947
AIRCRAFT	0	0	0	22,601	23,313	8,068
FIDELITY	0	0	0	14,214	14,518	14,030
SURETY	232	242	(40)	54,817	51,526	27,219
BURGLARY & THEFT	36	36	23	1,226	1,187	203
BOILER & MACHINERY	0	0	0	18,494	18,848	6,380
CREDIT	94	72	0	17,646	17,307	5,203
AGGREGATE WRITE-INS	0	0	0	45,422	49,782	38,910
TOTALS	955,921	940,142	880,548	4,655,395	4,585,883	3,704,454

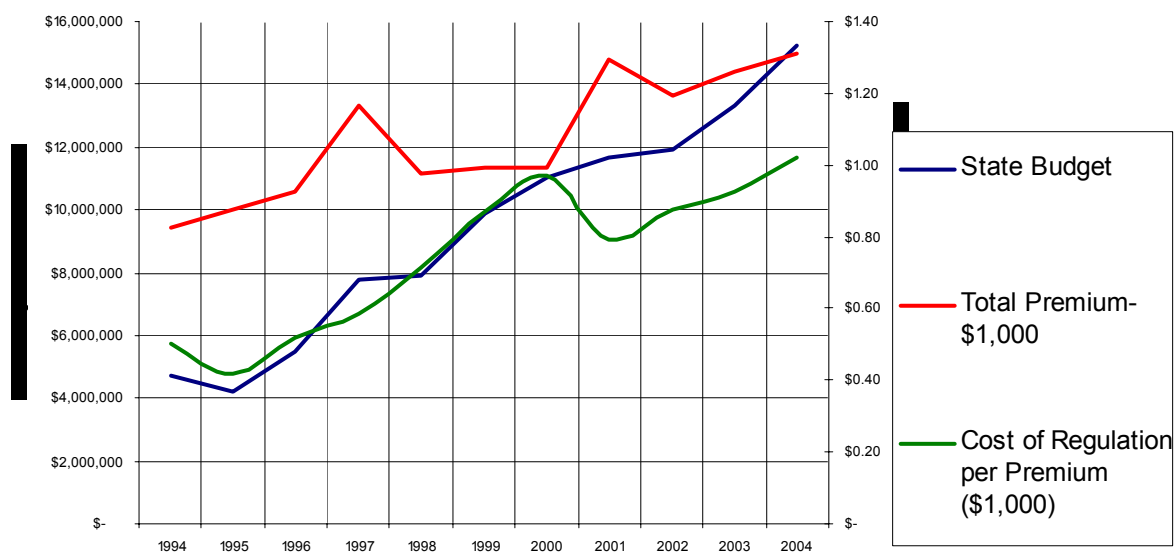
2004 Alabama Life Aggregate Premiums By Product Type- (000's)

	Ordinary	Credit	Group	Industrial
Life	\$ 1,363,822,859	\$25,681,847	\$ 343,967,419	\$3,797,164
Annuity Considerations	\$ 1,395,986,581	\$ -	\$ 636,328,333	\$ -
Deposit Type Contracts	\$ 25,646,259	\$ -	\$ 182,625,255	\$ -
Other	\$ 495,363,087	\$ -	\$ 333,297,740	\$ -
Total	\$ 3,280,818,786	\$25,681,847	\$ 1,496,218,747	\$3,797,164

Cost of Regulation

The cost of regulation is the comparison of the Department's annual budget to the amount of premium written in the State. In 2004, the cost of regulation increased to \$1.02 per \$1,000 of premium written which marked a \$.10 increase per \$1,000 of premium or 11% increase over 2003's \$.93.

Cost of Regulation, 1994- 2004





Alabama Department of Insurance

Walter A. Bell

Commissioner

334-269-3550

800-433-3966

www.aldoi.gov

Consumer Division	334-241-4141
Producer Licensing Division	334-241-4197
Pre-Need	334-240-4420
State Fire Marshal Office	334-241-4166
Legal Division	334-241-4117
Examination Division	334-241-4151
Rates and Forms Division	334-241-4145
Receivership Division	334-240-7560
Information Technology Division	334-241-4113
Personnel Division	334-241-4193
Accounting Division	334-241-4104